



UNITED STATES DEPARTMENT OF EDUCATION
WASHINGTON, D.C. 20202

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SUMMARY: This letter provides additional information on the impact of credit-hour/clock-hour conversions on the handling of student aid funds.

FEDERAL STUDENT FINANCIAL AID HANDBOOK REFERENCE: Please refer to pages 3-79, 4-29 through 4-31, 4-61 through 4-78, 6-17, 7-16, 10-11 through 10-14, 10-19, 10-20, and 10-43 of the 1989-90 Federal Student Financial Aid Handbook for further information.

GEN-89-54

Dear Colleague:

On July 1, 1989, new regulations that may have an impact on the method that an institution uses to measure the length of its educational programs went into effect. The actual implementation of those regulations began on October 1, 1989. Under the provisions of §600.3(c) and (d) of the Institutional Eligibility regulations, certain institutions that have used credit hours to measure the lengths of their programs are required to measure those programs in clock hours to be considered legally authorized to provide postsecondary education in their respective States.

You have received two earlier "Dear Colleague" letters, dated April 26, 1989 (GEN-89-25), and May 1989 (GEN-89-29 (LD)), describing the impact of these provisions on institutional eligibility to apply for participation in programs administered under the Higher Education Act of 1965, as amended. In addition, in August 1989, institutions that the Department of Education identified as potentially affected by these provisions received a letter describing the actions institutions need to take to continue their eligibility status. That letter also provided some preliminary information on the consequences of these for the calculation and disbursement of Title IV funds.

Enclosed with this letter is additional detailed information on the implications of the new regulatory provisions for the administration of the student aid programs. If your institution is required to change from a credit-hour to a clock-hour system for student aid purposes, the enclosed information should enable you to complete the transition smoothly.

Sincerely,

Roberta B. Dunn
Deputy Assistant Secretary for
Student Financial Assistance

William L. Moran
Director, Student Financial
Assistance Programs

Enclosure

PART I EFFECTIVE DATES

For those institutions using a credit-hour system, which, under the provisions of 34 CFR 600.3(c) or (d), must begin to use a clock-hour system, the institutions must provide certain information to the Division of Eligibility and Certification (DEC). This procedure was described in the letters that the Director of Student Financial Assistance Programs and the Director of the Debt Collection and Management Assistance Service sent to institutions in July and August 1989. After a review of that information, DEC issues an updated Institutional Eligibility Notice to the institution authorizing the institution to participate in programs administered under the Higher Education Act of 1965, as amended, using a clock-hour system. By now most institutions affected by the new provisions have provided the information needed by DEC and have been informed of the effective date of their conversion to a clock-hour system. Institutions that have not been notified of their conversion should contact DEC, Office of Postsecondary Education, U.S. Department of Education, 400 Maryland Avenue, S.W., Washington, D.C. 20202.

The effective date of the conversion applies to the student aid programs in the following ways:

Pell Grant and campus-based programs

Under the provisions of §690.7 of the Pell Grant Program regulations, the change to a clock-hour system applies to the payment period in which the effective date falls, and subsequent payment periods. This principle also applies to the campus-based programs.

Guaranteed Student Loan (Stafford Loan, Supp Students (SLS), PLUS, and Consolidation Loan.

Beginning with the effective date of the conversion, institutions must certify loan applications based on clock-hour enrollment. Generally, loan proceeds must be disbursed on the basis of their enrollment in clock-hour enrollment.

SSIG Program

An institution must follow any applicable State law concerning the application of the conversions on awards or conversions.

Byrd and Douglas Scholarship Program

Credit-hour/clock-hour conversion impact on institutions participating in the program.

PART II THE IMPACT OF A CONVERSION ON AN ELIGIBLE PROGRAM

The major consequence of a credit-hour/clock-hour conversion for an eligible program is that the conversion may result in a significant reduction in the length of the program. A reduction in the length of a program can affect the amount of aid that may be disbursed to a student (discussed in Part IV), can alter the time frame within which a student's annual loan limits are measured (discussed in Part III), or can even result in the loss of eligibility of a program and, consequently, the loss of eligibility of students enrolled in that program (discussed below and in Part III). For the Pell Grant Program, an institution also needs to be careful to change the lengths of the payment periods in the program. For example, if a 24-semester-hour program consisting of two 12-semester-hour payment periods becomes a 650-clock-hour program, the institution must make sure that the program is divided into at least two 325-clock-hour payment periods.

The most likely instances of loss of eligibility will involve the following:

- o One-year program (at least 24 semester or trimester or 36 quarter hours) becomes a program of less than six months (600 clock hours) but more than 300 clock hours. The program loses its eligibility for the Pell Grant, campus-based, SSIG, Byrd Scholarship, and Douglas Scholarship programs. The program remains eligible for the Guaranteed Student Loan programs.
- o One-year program becomes a program of less than 300 clock hours. The program loses its eligibility for all Title IV programs.
- o Six-month program (at least 16 semester or trimester or 24 quarter hours) becomes a program of less than six months (600 clock hours) but more than 300 clock hours. The program loses its eligibility for the Pell Grant, campus-based, and SSIG programs. The program remains eligible for the Guaranteed Student Loan programs.
- o Six-month program becomes a program of less than 300 clock hours. The program loses its eligibility for all Title IV programs.
- o Program of at least 8 semester or trimester or 12 quarter hours, which is eligible only for the Guaranteed Student Loan programs, becomes a program of less than 300 clock hours. The program loses its eligibility for the Guaranteed Student Loan programs.

Generally, the loss of a program's eligibility is like the loss of an institution's eligibility. The institution must return to the Federal government any unobligated funds, other than those committed but not yet paid to students and those for the institution's administrative cost allowance. Funds are committed when, under the Pell Grant Program, a student who is enrolled and attending the institution has submitted a valid Student Aid Report (SAR) while the program is eligible. Under the campus-based programs, funds are committed when the student is enrolled and attending the institution and has received an award letter from the institution while the program is eligible. Under the Guaranteed Student Loan programs, disbursements received after the date of the loss of eligibility must be handled according to the procedures for late disbursements, which are discussed on pages 5 and 6.

The institution is not required to take the other steps associated with a loss of institutional eligibility, such as arranging for an audit or audit report or notifying the Secretary about arrangements for the retention and storage of records, unless the institution itself loses eligibility. The institution is not required to apply the distribution formula under 34 CFR 668.22, except for students who officially withdraw from, drop out of, or are expelled from the institution on or after the first day of class of a payment period.

Remember also the basic principle that when a program loses eligibility, students enrolled in that program also lose their eligibility. The impact of a conversion on student eligibility is discussed in Part III.

PART III THE IMPACT OF A CONVERSION ON AN ELIGIBLE STUDENT

Generally, a student who is enrolled in an eligible program that undergoes a conversion is considered to have been enrolled in a credit-hour program before the conversion and to be enrolled in a clock-hour program after the conversion. However, the conversion on the student's eligibility varies for Title IV programs in the following ways:

o Pell Grant Program

If the conversion results in an eligible program that is reduced in length, an enrolled student may be eligible for a smaller Pell Grant than he or she originally expected to receive, or a student who has already received Pell Grant disbursements in that program may no longer qualify for further disbursements or may even owe an overpayment. Part IV explains how an institution determines disbursements and overpayments under these circumstances.

If the conversion causes a program to become ineligible, a student enrolled in the program also generally becomes ineligible on the date that the program loses its eligibility. Funds may be disbursed only to a student who submitted a valid SAR before the effective date of the loss of eligibility. The institution may pay a student who submitted a valid SAR before that date only the amount that the institution had calculated for the student's educational expenses through the end of the payment period during which the loss of eligibility occurred. If the institution establishes a policy to recalculate students' awards as discussed in Part IV, the institution must determine whether any funds disbursed to a student for the payment period during which the loss of eligibility was effective are an overpayment. If the institution has no such policy, no funds disbursed to a student before the loss of eligibility are an overpayment.

o Campus-based programs

A change from a credit-hour system to a clock-hour system has no practical effect on enrolled students unless the change causes the loss of eligibility of the program. A student loses eligibility on the date that the program loses eligibility.

If a program becomes ineligible, funds may only be disbursed to a student who received an award letter before the effective date of the loss of eligibility. The institution may pay a student who received an award letter only the amount which the institution determines could have been used for educational purposes through the end of the payment period during which the loss of eligibility occurred. No funds disbursed to an otherwise eligible student before the loss of eligibility are an overpayment.

Under the Perkins Loan Program, an initial grace period immediately follows a period of enrollment, as noted on page 6-17 of the Handbook. Because the period of enrollment must be considered to have ended when a program loses its eligibility, for Perkins Loan borrowers the grace period begins immediately following the date of the loss of eligibility. As noted on page 6-27 of the Handbook, a deferment ends on the date that the program loses eligibility. For loans made on or after October 1, 1980, the postdeferment grace period also begins immediately following the loss of eligibility.

Under the provisions of 34 CFR 675.9, a student must be enrolled or accepted for enrollment in an eligible program to receive College Work-Study funds. Thus, an institution may use College Work-Study funds only to pay wages earned for employment during the period during which the program was

eligible or a subsequent period of nonenrollment under the provisions of 34 CFR 675.25. Thus, an institution may continue to use College Work-Study funds to pay a student for employment after the program lost its eligibility only if the institution can document the student's acceptance into another eligible program (see page 7-16 of the Handbook).

- o SSIG Program

A student loses eligibility on the date that a program loses eligibility. An institution must follow any applicable procedures established by its State for dealing with a loss of eligibility. An institution must also follow any applicable State procedures dealing with the implications of a credit-hour/clock-hour conversion on programs and students that remain eligible.

- o Guaranteed Student Loan programs

A conversion can change the point at which a student reaches an annual loan limit, if the guarantee agency makes loan amounts for a period in which the student is required to complete at least 900 clock hours, under the provisions of 34 CFR 682.401(b)(2)(iii)(B). For example, a student is enrolled in a 48-semester-hour program consisting of two academic years of 24 semester hours each. The student receives a \$2,625 Stafford loan for the first academic year of the program and anticipates receiving another loan for the second academic year. However, during the first academic year, the program converts to a 900-clock-hour program, and the school begins to use a 900-clock-hour academic year. Because the student has already borrowed the maximum amount for an academic year under the guarantee agency's policy, the student may not receive another Stafford loan for the remainder of the program.

If a conversion causes a program to lose eligibility, a student enrolled in the program becomes ineligible for that the program becomes ineligible. Beginning on the effective date of the program's loss of eligibility, the school may not certify any loan applications for the program. The school also may not disburse a loan to a student on or after that date. The school must make late disbursements properly.

Under the procedures for late disbursement described on page 10-43 of the Handbook, if a loan is received after the date of the student's enrollment, returned to the lender within 120 days of the disbursement, a school should consider the circumstances of the return and the student's enrollment status and cost of attendance.

period during which the program was eligible. The student should be informed that the lender, if allowed by the guarantee agency, may again disburse funds to cover the costs of attendance while the student was eligible. If the lender then sends another disbursement to the school and indicates in writing that the disbursement has been approved by the guarantee agency, the school may process that disbursement in accordance with 34 CFR 682.604.

A school is not required to return to a lender any proceeds that were delivered directly to a student or credited to the student's account before the loss of eligibility, unless the student drops out, withdraws, or is expelled from the school (in which case, of course, the school must follow the distribution formula for refunds under 34 CFR 668.22). The grace period for repayment of Stafford loans does not begin until the borrower completes the program, unless the borrower ceases to be enrolled on at least a half-time basis. Deferments continue under the same conditions described on pages 10-11 through 10-14, 10-19, and 10-20 of the Handbook until the student completes the program.

PART IV CALCULATING, DISBURSING, AND REPORTING PELL GRANTS AFTER A CONVERSION

This part explains how an institution calculates and disburses Pell Grants in situations in which a credit-hour/clock-hour conversion causes a reduction in the length of an eligible program without causing the program to lose its eligibility. This part also reminds institutions about how to report changes in academic calendars and disbursements under a new clock-hour system to the Pell Grant Disbursement System.

An institution may establish a policy to recalculate students' Pell Grants for the payment period during which a conversion becomes effective. If the institution establishes such a policy, the institution must apply that policy consistently to all students, including students who have already received a disbursement for that payment period calculated on a credit-hour basis.

If the institution does not establish such a policy, a student who began attendance is generally paid for that payment period based on the fact that he or she began attendance while the program was a credit-hour program. Thus, for example, if a student began classes and submitted his or her SAR while the program was considered to be a credit-hour program and the program was determined to be a clock-hour program before the student received his or her disbursement, the student should be paid as if he or she were still enrolled in a credit-hour

program. However, the institution must recalculate the student's award if the student did not receive a first disbursement under 34 CFR 690.77 and did not submit a SAR before the effective date of the change.

At any institution that undergoes a conversion, calculations and disbursements of Pell Grants must be made on a clock-hour basis for any payment period subsequent to the payment period during which the conversion became effective.

Payments for students enrolled in an eligible program that has undergone a conversion must be calculated in the same manner that payments for transfer students are calculated. This procedure is described in detail on pages 4-29 through 4-31 of the Handbook. Briefly, the procedure involves the following five steps:

- (1) The institution must first determine the Scheduled Pell Grant for the award year. Unless the cost of attendance or Student Aid Index has changed, the Scheduled Pell Grant will be the same as the one that existed when the program was a credit-hour program.
- (2) The institution must then divide the Scheduled Pell Grant into payments for each clock-hour payment period.
- (3) The institution then determines the percentage of the Scheduled Pell Grant received by the student when the program was a credit-hour program.
- (4) The institution subtracts that percentage from 100% to determine the maximum percentage of the Scheduled Pell Grant that the student could receive for the remainder of the award year.
- (5) For each remaining payment period, the student is paid the lesser of that maximum percentage or the amount determined under step 2.

The following examples illustrate this procedure:

Example 1

Circumstances:

- Program is 24 semester credits.
- Academic year is 24 semester credits.
- Program is divided into two 12-credit payment periods.
- Student's Scheduled Pell Grant is \$2,300.

--Student received \$1,150 for the first payment period.

--During the first payment period, program converts to 650-clock-hour program with two payment periods of 325 clock hours each.

--Academic year becomes 900 clock hours.

What is the amount of the Pell Grant that the student may receive for the remainder of the program?

1. Since the cost of attendance for the program is unchanged, the Scheduled Pell Grant is still \$2,300 for the 900-clock-hour academic year.
2. Payments for each payment period are $(325/900) \times \$2,300 = \831 .
3. Student has received $(\$1,150/\$2,300) = 50\%$ of Scheduled Pell Grant.¹
4. The maximum amount of Scheduled Pell Grant that the student could possibly receive for the remainder of the award year is 100% - 50%, or 50% (\$1,150).
5. When the student earns the 12 credits for which he or she has been paid, the student has completed the first payment period. The student may receive \$831 (the lesser of \$831 or \$1,150) for the remaining 325-clock-hour payment period.

Example 2

Circumstances:

--Program is 36 quarter credits.

--Academic year is 36 quarter credits.

--Program is divided into three 12-credit payment periods.

ution has established a policy of discussed on page 6, the institution t the student would have received if originally been measured in clock e student is entitled to \$831 the student actually received apply the difference, \$319, to the se the student may receive no more ent period, the second disbursement \$512 (\$831 - \$319).

--Student's Scheduled Pell Grant is \$2,300.

--Student received \$1,534 for the first two payment periods (\$767 for each quarter).

--During the second quarter, program converts to a 650-clock-hour program with two payment periods of 325 clock hours each.

--Academic year becomes 900 clock hours.

What is the amount of the Pell Grant that the student may receive for the remainder of the program?

1. The cost of attendance is unchanged; the Scheduled Pell Grant is still \$2,300 for the 900-clock-hour academic year.
2. Payments for each payment period are $(325/900) \times \$2,300 = \831 .
3. Student has received $(\$1,534/\$2,300) = 67\%$ of Scheduled Pell Grant.
4. The maximum amount of Scheduled Pell Grant that the student could possibly receive for the remainder of the award year is $100\% - 67\%$, or 33% (\$766).
5. When the student earns the 24 credits for which he or she has been paid, the student has completed the second payment period. However, student does not receive \$766 (the lesser of \$766 or \$831) for the remaining payment period. Remember that a student's Pell Grant for a payment period is calculated, under 34 CFR 690.63, by multiplying the Scheduled Pell Grant by the following fraction:

$$\frac{\text{The number of clock hours the student is expected to take in a payment period}}{\text{The number of clock hours in an academic year}}$$

In this case, the institution must :
of clock hours that the student is expected to take.

6. Because the student has earned 24 of 36 credits, he or she has completed $2/3$ of the program. The student is expected to complete $1/3$ of the program. That means that the student is expected to complete $1/3$ of 650 clock hours, or 217 clock hours. The student therefore is eligible to receive $(217/900) \times \$2,300$, or \$555.

Example 3

Circumstances:

- Program is 36 quarter credits.
- Academic year is 36 quarter credits.
- Program is divided into three 12-credit payment periods.
- Student's Scheduled Pell Grant is \$2,300.
- Student has begun attendance but not yet submitted a SAR and has not yet received a disbursement.
- During the first quarter, program converts to a 650-clock-hour program with two payment periods of 325 clock hours each.
- Academic year becomes 900 clock hours.

What is the amount of the Pell Grant that the student may receive for the remainder of the program?

1. The cost of attendance is unchanged; the Scheduled Pell Grant is still \$2,300 for the 900-clock-hour academic year.
2. Payments for each payment period are $(325/900) \times \$2,300 = \831 .
3. Because the student has not yet submitted a SAR, he or she must be paid as if he or she originally enrolled in a clock-hour program. Therefore, after he or she submits his or her SAR, he or she may receive \$831. When he or she completes the 325 clock hours comprising the first payment period, he or she may receive the remaining \$831 for the final 325-clock-hour payment period.

An institution that experiences a conversion from a credit-hour
must report the change in the
information to the Pell Grant
to the normal procedures described
in the Handbook. Because DEC will have
a permanent System about the permanent
it will receive a phone call inquiring
that the change is reported on
any.

in the Electronic Data Exchange
or reporting changes in their
of their Users Guide.
in the Recipient Data Exchange must

follow the instructions in Enclosure 2 of the 1989-90 Pell Grant Delivery System Action Letter #1. Institutions that participate in the Floppy Disk Data Exchange must follow the instructions in Section 3 of their Users Guide.